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February 22, 2011

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Statutory Procedures Affecting Timing of Debt Restructuring

In response to requests from a number of legislators, this memorandum describes the general fund supported debt restructuring proposal included under 2011 Special Session Senate Bill 11 (SS SB 11 and SS AB 11). In addition, information on the current law debt service payment procedures that affect the timing of the proposed transaction is also provided.

SS SB 11 Restructuring Proposal

Under the bill, $165,000,000 of general obligation refunding bonding would be authorized for the purpose of restructuring approximately $165,000,000 in outstanding principal on GPR-supported, general obligation debt that would otherwise be paid off on May 1, 2011. The bill would authorize this bonding by increasing a current refunding authorization from $309,000,000 to $474,000,000 (an increase of $165,000,000) of state public debt that may be issued to refund any unpaid indebtedness relating to tax-supported or self-amortizing facilities. These bonds cannot be issued after June 30, 2011.

Although this bonding could be used to restructure both tax-supported and self-amortizing bonds, the administration indicates that only GPR-supported bonds would be restructured. Based on information from the administration on the potential structure of these refunding bonds, this provision would: (a) increase GPR-Lapses by $165,000,000 in 2010-11 from GPR debt service appropriations to reflect the reduced GPR principal payments to be made from those appropriations in that year; and (b) increase anticipated GPR debt service costs in the 2011-13 biennium by $29,570,000 to reflect the initial principal payment ($15,560,000) associated with the expected ten-year amortization of the $165,000,000 in deferred principal and the initial interest payments ($14,010,000) due on that principal.

Also, it is likely that the $53.5 million in existing debt restructuring authority would be included with the $165 million in authority provided under bill and result in a debt restructuring bond issue totaling $218.5 million. Carrying out one debt restructuring bond issue transaction using the total authority available included under current law and the bill would result in lower transaction costs compared to two separate transactions. The potential savings of $49 million from the $53.5 million in existing restructuring bonds was included in the letter from this office dated January 31, 2011, relating to revenue estimates for 2010-11 and the 2011-13 biennium.

Current Law Requirements

The state pays semi-annual debt service on its outstanding general obligation debt each year, including: (a) an interest only payment on November 1; and (b) a principal and interest payment on May 1. To make these payments, current law requires that the state transfer moneys to the bond security and redemption fund (BSRF) sufficient for the payment of interest, principal, and any premiums due on that debt, which is also specified in the bond indentures. These transfers are made from state agency debt service appropriations to the BSRF in an amount not less than the aggregate amount of principal, interest, and premiums due. The amounts due must be deposited in the BSRF as of the 16^{th} day before the due date of the principal, interest, and premiums. This means that the transfers from agency, GPR debt service appropriations must be made as of April 15, of each year for the May 1, principal and interest payment that is due. Once these funds are transferred to the BSRF, the moneys can only be used for the purposes of making the principal, interest, and premium payments. Therefore, once these transfers occur, the state can no longer issue bonds to restructure the principal amounts due on May 1.

However, the current law transfer requirements are more stringent when the state has outstanding operating notes. Current law specifies that when the state has outstanding operating notes, any principal and interest amounts due must be transferred to the BSRF as of the 46^{th} day before such payments are due. Because the state has $800 million in operating notes currently outstanding, the transfers from agency GPR debt service appropriations must be made by March 16, 2011. Once these transfers are made on March 16, the state can no longer issue bonds to restructure the principal amounts due on May 1, 2011.

In order to carry out a bond issue, Capital Finance staff with the Department of Administration compiles the official statement for the bond issue, obtains a bond counsel opinion on the bonds, obtains a bond rating from rating agencies, takes bids, and carries out other duties related to the sale. These actions typically take staff two to three weeks to complete, but have been completed within two weeks. If less time is allowed, there is a risk that the transaction cannot be completed.

As an example, a similar situation occurred in 2003-04, where refunding bonds were authorized in late-February and operating notes were outstanding. On February 25, 2004, 2003 Assembly Bill 909 was introduced, which included the authorization of $175 million of refunding bonds. AB 909 was passed by the Assembly on Wednesday, February 25, 2004, concurred in by the

Senate on Thursday, February 26, 2004, and presented to the Governor on the same day. The Governor approved the bill on February 26, 2004, and the bill was published on Monday, March 1, 2004. A total of $175 million in refunding notes were then issued on March 11, 2004, with delivery of proceeds on March 16, 2004. These short-term notes were replaced with bonds in a subsequent transaction in June of 2004.

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